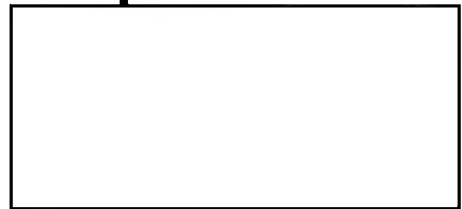


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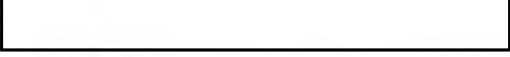
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**\*USSR-SYRIA:** The communiqué issued on April 16 following President Asad's visit to the USSR contains no major surprises; it indicates that Moscow will provide Damascus with additional military and economic assistance in order to strengthen its ties to Syria. Asad signed new agreements on economic, scientific, and cultural affairs during his stay in Moscow, but the communiqué made no mention of a treaty of friendship and cooperation.

There was no reference to an agreement on military aid, but the two sides "outlined steps" for the further strengthening of the Syrian armed forces and stressed the importance of increasing Syria's "defense potential" in the face of "continued Israeli aggression." The communiqué repeated the language used in the communiqué following Gromyko's trip to Damascus last month, which stated that Syria has the right to use all "effective means" for the liberation of its occupied lands.

There is no indication whether Moscow was successful in persuading Asad to bypass the Washington disengagement talks in favor of the Geneva forum. References in the communiqué to Middle East peace efforts were almost verbatim repetitions of those in the Gromyko communiqué. Disengagement was characterized as only a partial step toward peace that must be tied to an overall settlement. The importance of the Soviet Union's participation in all the stages and spheres of a settlement was again stressed.

The communiqué ended by stating the resolve of both sides to give a "firm rebuff" to any attempts to damage Soviet-Syrian friendship. In part this is meant as a muted warning to the US, but it also carries the implication that Syria will not follow Egypt's example in improving relations with the US at the USSR's expense. [redacted]

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\*EGYPT-ISRAEL: President Sadat again reminded Israel yesterday that Egypt has tanks and surface-to-surface missiles ready to counter and retaliate against any Israeli attack on Egypt, but his remarks seemed designed as much for Arab consumption as for the Israelis.

Speaking to a group of Egyptian students, Sadat said that he has a "fantastic" number of tanks ready on the Suez Canal's west bank should they be needed to parry an Israeli attack. He also repeated a threat he made during the October war to retaliate with Egyptian "rockets" that are targeted against Israeli cities if Tel Aviv initiates an attack on Egyptian cities.

Sadat apparently made no reference to a possible Egyptian response to the fighting on the Syrian front. By confining his remarks to the Suez front and couching them in terms of a reaction to any Israeli aggression against Egypt, Sadat avoided directly threatening Tel Aviv, while reminding both the Israelis and his Arab critics that Egypt has not let down its military guard.

Radical Arabs have charged Sadat with abandoning the Arab cause after achieving the disengagement agreement with Israel.

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NATIONALIST CHINA - JAPAN: Taipei's hard line on the impending civil air agreement between Tokyo and Peking is working against any face-saving compromise on continuing Nationalist air links with Japan.

Encouraged by anti-Tanaka forces within Japan's Liberal Democratic Party, Taipei has reiterated threats to close its air space (specifically its Flight Information Region and Air Defense Identification Zone) to Japanese planes if Tokyo unilaterally alters its existing air agreement with the Republic of China. To give the threat muscle, the Nationalist Air Force has been placed on alert and given contingency instructions for intercepting intruding Japanese aircraft, thus increasing the potential danger of an air incident.

Premier Chiang Ching-kuo long ago wrote off Japanese Premier Tanaka and Foreign Minister Ohira as too pro-Peking. He now appears to believe that the Tanaka government will be forced by right-wing pressure to suspend the negotiations, or, in pushing the agreement through, will be badly damaged politically.

Such an estimate clearly overstates Chiang's influence and the right-wing strength within the ruling LDP. Chiang's course of action, moreover, appears to be increasing anti-Japanese feeling in Taiwan and feeding the Nationalists' sense of grievance, making compromise more difficult.

Despite his adamant public stand, which has aroused misgivings among his advisers, Chiang has not completely closed the door to future negotiation, nor has he specified the exact conditions which would trigger a rupture in air service. Air links to Japan are still economically and symbolically important to Taipei, and Japan is a major economic partner. The points at issue between the Nationalists and Tokyo have been reduced to two: the most important being the presence of Nationalist airline personnel in Japan; the less significant is a change in the name of Taipei's airline.

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Both points probably are open to discussion. In the present overheated atmosphere, however, Taipei may overplay its hand and precipitate a rupture which will embitter future Nationalist-Japanese relations in general and make future working arrangements more difficult.

Prime Minister Tanaka, for his part, is deeply committed to an air agreement with Peking and is unlikely to change course as a result of Taipei's tough stand. He plans to have the agreement signed, probably within a week, and to submit it to the Diet for early ratification, which seems assured. While Taipei's new tactics have made it harder for Tanaka to secure rapid approval of an agreement in the councils of his own party and in the cabinet, there is good evidence that key factional leaders, notably Finance Minister Fukuda, have decided against using the issue in any overt challenge to Tanaka's leadership.

The hard-line Nationalist attitude will nonetheless encourage the ruling party's more extreme right-wing and pro-Taiwan elements to make sharp public attacks on Tanaka as well as on Foreign Minister Ohira, who has staked his personal prestige on achieving the agreement with Peking. If the right wing makes a case that Ohira has failed diplomatically by his inability to preserve air links with Taiwan, he may be compelled to assume the blame and resign.

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FRANCE: The deadline for filing in the French presidential election passed yesterday with about 40 candidates nominally in the running. The plethora of hopefults--plus the revolving-door candidacies of several others, including the Prime Minister--has made the race something of a joke to the average voter. The Constitutional Council will pare down the list to no more than a dozen candidates by the end of the week, and the campaign will start officially this weekend.

Three members of the governing coalition parties are in the running: former prime minister Jacques Chaban-Delmas, Independent Republican Party leader Valery Giscard d'Estaing, and former commerce minister Jean Royer. Despite the disarray within the Gaullist-led coalition, Francois Mitterrand, the sole candidate of the left, is not now expected to win an absolute majority of votes in the first round on May 5. In effect, the first round will be a primary to determine which candidate on the right will face Mitterrand in the runoff on May 19.

Mitterrand will gain some votes because of the absence of a serious center-party candidate. Jean Lecanuet is backing Giscard d'Estaing, and Jean-Jacques Servan-Schreiber yesterday said that he will support Giscard or Mitterrand in the second round. His statement was clearly directed against Chaban.

Chaban's prospects also were dimmed early this week by another attempt by prominent Gaullists loyal to Pompidou to force Chaban to step aside in favor of a unity candidate. Nevertheless, polls indicate Chaban is still running ahead of Giscard. Royer is extremely popular with small businessmen, and his candidacy is expected to take votes away from Chaban, Giscard, and Mitterrand.

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KUWAIT-FRANCE: After nearly eight months of negotiations, Kuwait has purchased Mirage F-1 jet interceptors from France, according to the Kuwaiti defense minister. No details of the accord are available; previous reporting indicates that Kuwait was interested in obtaining at least 16 F-1s.

The F-1 is a supersonic fighter and attack aircraft capable of reaching speeds of Mach 2 at high altitudes. It is generally armed with air-to-air missiles. The French aircraft may have been selected over competing US F-5 and A-7 planes because Paris attached no restrictions on its use. The Mirages probably will not be delivered for at least a year because of the need to train Kuwaiti pilots. Kuwait is still interested in procuring Franco-British Jaguar aircraft because of their ground-support capability.

Kuwait is the first Persian Gulf country to buy the F-1, although Paris has sold other Mirage aircraft to Saudi Arabia--probably for Egyptian use--and to Abu Dhabi. Kuwait also acquired French helicopters in February and ground forces equipment in 1969.

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JAPAN: Tokyo registered a \$1-billion balance-of-payments deficit in March as the oil bill for the month reached \$1.6 billion. The per-barrel cost of oil to Japan has continued to rise this month.

Adding to the payments difficulties was the continued rapid growth in the value of non-oil imports, which were 56 percent higher than in March 1973. Two thirds of this rise was the result of price increases. The rate of increase, however, was lower than in preceding months, and this trend is likely to continue as domestic demand weakens.

Japan's exports were up 43 percent over last March, but most of the increase resulted from higher prices. Steel and automobiles were the big gainers. Advance indicators point to similar increases in the next few months, and the quick settlement of the seamen's strike has eliminated a potential depressant on exports. Wage increases on the order of 30 percent are being granted in various industries, however, and these could lead to some loss in Japan's competitiveness later in the year.

The government has had some success in holding down long-term capital outflows. The \$300-million net outflow in March was the smallest in nearly two years. Restrictions on overseas real estate purchases, tight credit conditions, and the borrowing abroad by Japanese firms of \$180 million have been largely responsible for the drop in outflows.

The first-quarter payments deficit of \$4.1 billion may not be repeated, but improvement is not likely until non-oil imports slow markedly. Rapid export growth, the principal alternative solution, is difficult to achieve and would spark undesirable reactions from Japan's trading partners.

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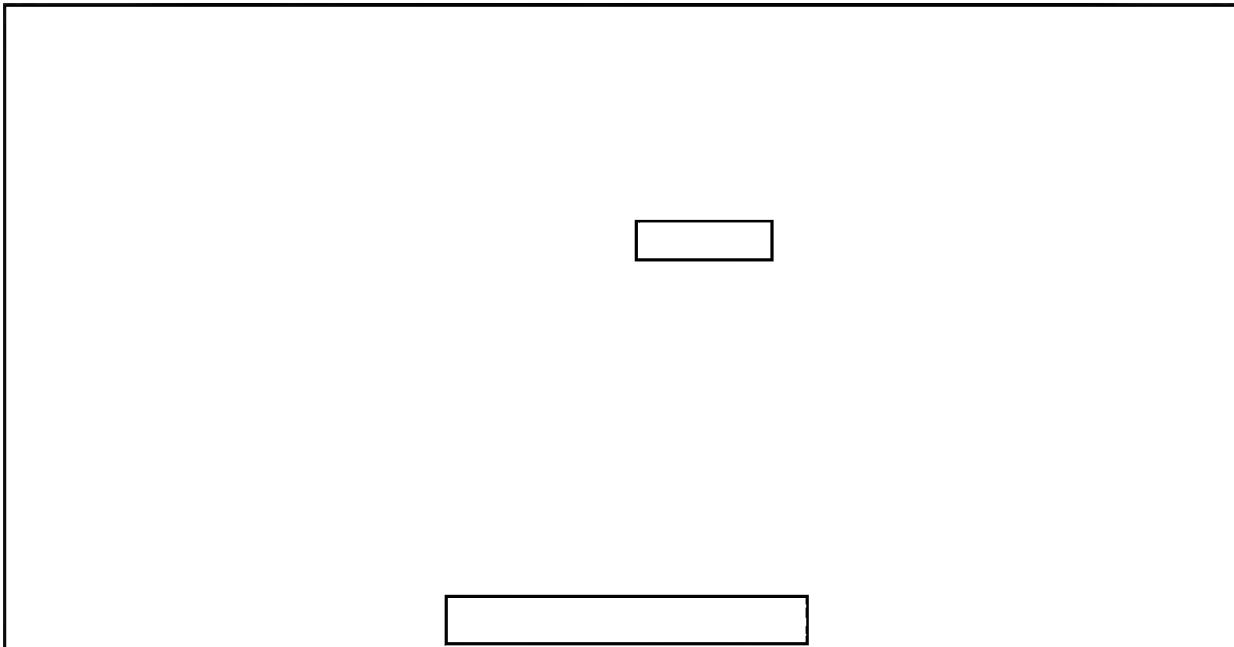
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France: The balance of trade in the first quarter of 1974 was in deficit by \$681 million, compared with a surplus of \$373 million for the same period a year ago. The turnaround was caused mainly by a near tripling of oil prices; a gradual deterioration of the non-oil trade balance over the past six months aggravated the problem. 

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